

University of Chicago Law School Chicago Unbound

International Immersion Program Papers

Student Papers

2017

A Tale of Two Cities: Comparative Study of Public Housing Policies of Hong Kong and Singapore

Richard Junqi Zhang

Follow this and additional works at: [http://chicagounbound.uchicago.edu/
international_immersion_program_papers](http://chicagounbound.uchicago.edu/international_immersion_program_papers)

Recommended Citation

Zhang, Richard Junqi, "A Tale of Two Cities: Comparative Study of Public Housing Policies of Hong Kong and Singapore" (2017).
International Immersion Program Papers. 71.
http://chicagounbound.uchicago.edu/international_immersion_program_papers/71

This Working Paper is brought to you for free and open access by the Student Papers at Chicago Unbound. It has been accepted for inclusion in International Immersion Program Papers by an authorized administrator of Chicago Unbound. For more information, please contact unbound@law.uchicago.edu.

A Tale of Two Cities: Comparative Study of Public Housing Policies of Hong Kong and Singapore

I. Introduction

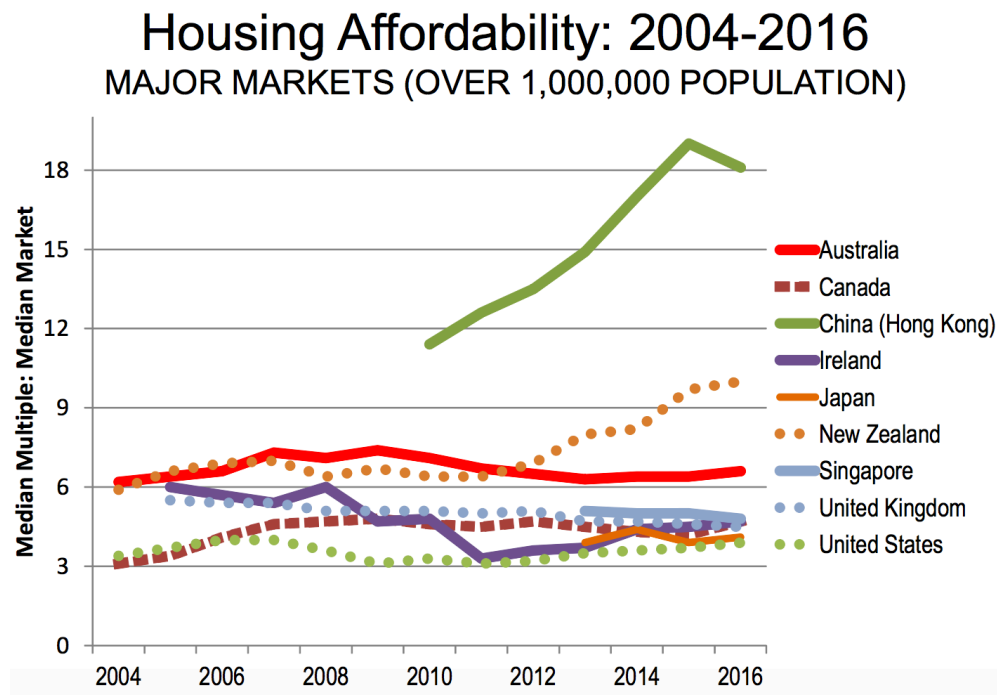
Both located in the western end of the Pacific rim, Hong Kong and Singapore, though over 2,500 kilometers apart, are frequently compared for their economic and housing developments. Both cities are renowned for their successful economic and social developments – transferring from underdeveloped to newly industrialized economies in a span of just over two decades.

Given the tension between the density of population and the limited size, housing has been a problem that both cities need to face seriously. However, the two cities are telling quite different stories in terms of the affordability and conditions of their housing markets. According to the *Demographia International Housing Affordability Survey*,¹ Hong Kong has least affordable housing among 92 major housing markets around the world for all the seven years since it has been included in the Survey, with a Median Multiple² of 18.1 in 2016, while Singapore

¹ Demographia, *13th Annual Demographia International Housing Affordability Survey (2017)*, available at <http://www.demographia.com/dhi.pdf>.

² *Id.* Median Multiple refers to median house price divided by gross annual median household income to assess housing affordability. The Median Multiple (a house price to income ratio) is widely used for evaluating urban markets, and has been recommended by the World Bank and the United Nations and is used by the Joint Center for Housing Studies, Harvard University. Similar house price to income ratios (housing affordability multiples) are used to compare housing affordability between markets by the Organization for Economic Cooperation and Development, the International Monetary Fund, international credit rating services, media outlets (such as *The Economist*) and others.

seems to enjoy a much better position with a Median Multiple of 4.8. See Figure 1



for housing affordability in major housing markets with over 1 million population.

Figure 1: Housing Affordability in Major Housing Markets with Over 1 Million
Population (2004-2016)³

Singapore's public housing model offers one explanation for how the island-city has been able to keep a tight leash on prices. Homes owned under a program run by the Housing and Development Board (HDB) accounted for 80 percent of all dwellings as of last year (Figure 2).⁴ Hong Kong's public housing accounts for only about 21 percent of total home ownership, and there is an average waiting list of

³ *Demographia International Housing Affordability Survey (2017)*, *supra* note 1.

⁴ Housing & Development Board, *Public Housing – A Singapore Icon*, available at <http://www.hdb.gov.sg/cs/infoweb/about-us/our-role/public-housing-a-singapore-icon>.

more than 4 years to get a government flat in the city.⁵

Different Models

Hong Kong's private housing makes up 79% of market while Singapore's is at 19.9%

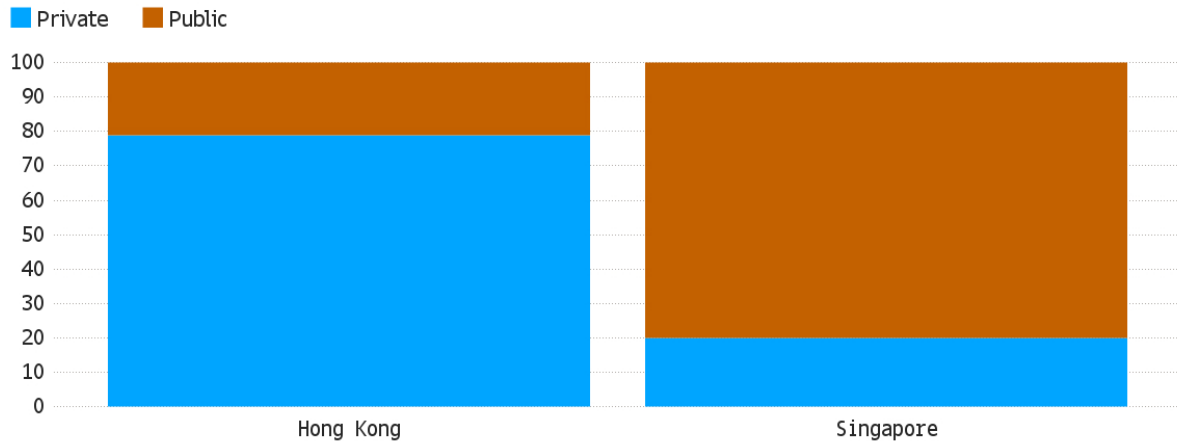


Figure 2: Different Models of Housing Markets in Hong Kong and Singapore

(2015)⁶

This paper will first look into the geographical information and social economic development and characters of Hong Kong and Singapore so as to draw a background of the two cities. Then a comparative reading of the two cities' public housing policies will be presented with a focus on sources of land, size, rental, pricing and application-decision process. Based on the comparison, Section IV will illustrate several key factors contributing to the different outcomes of the two

⁵ Naomi Ng, *Waiting time to get into Hong Kong public housing shoots up a full year over past 12 months*, *South China Morning Post* (February 14, 2017), available at <http://www.scmp.com/news/hong-kong/education-community/article/2070493/waiting-time-get-hong-kong-public-housing-shoots>.

⁶ Source: Hong Kong Housing Authority, <http://www.housingauthority.gov.hk/en/home-ownership/hos-flats/general-sales-information/index.html>, and Department of Statistics Singapore, <http://www10.hdb.gov.sg/ebook/ar2015/key-statistics.html>.

public housing policies.

II. Geographical and Social Economic Comparison of Hong Kong and Singapore

1. Location and Basic Geographical Information

Both Singapore and Hong Kong are strategically located at the heart of the Asian continent, with most Asian countries accessible within a five to seven hours' flight radius. The two cities are only 2,560 kilometers apart, but there is a lot of difference, and similarities at the same time. Hong Kong has a population of 7.2 million with land size of 1050 sq. kilometers, consisting of an eclectic mix of locals, Chinese, and expats from all over the world.⁷ Singapore has relatively less inhabitants, around 5.78 million with land size of 707 sq. kilometers, and 74% of the total population are Chinese, 13.3% Malay, 9.2% Indian and 3.3% others.⁸ The average age in Hong Kong is 42 years,⁹ compared to the 40.7 years of those in Singapore.¹⁰ The population growing rates in these two cities are 1% and 1.2%, respectively.¹¹

2. Social and Economic Development

⁷ Government of Hong Kong SAR, *Hong Kong Fact Sheets*, available at <https://www.gov.hk/en/about/abouthk/factsheets/>.

⁸ Department of Statistics Singapore, *Singapore in Figures 2016*, available at https://www.singstat.gov.sg/docs/default-source/default-document-library/publications/publications_and_papers/reference/sif2016.pdf.

⁹ *Supra* note 7.

¹⁰ *Supra* note 8.

¹¹ *Supra* note 7 & 8.

In terms of social and economic development, Singapore and Hong Kong have been competing for decades to gain dominance as Asia's Best Place to Live, to Do Business, to Visit, or almost everything else. Both the regions have been luring foreign investors with their tax friendly policies, easy company incorporation procedures and excellent infrastructure, amongst several other factors. Hong Kong has a longer history as a center for business but Singapore has fast caught up undermining Hong Kong's dominance in the region. Singapore has been quick and nimble to adopt business friendly policies that continue to attract bulk of the foreign investors to establish their Asian presence on its shores.

Average salaries in both cities are fairly equal – although those in Singapore earn around 2.5% more on average. Both offer good employment opportunities with low unemployment rate (3.4% in Hong Kong and 1.9% in Singapore).

Selected Economic and Social Indicators		
	Hong Kong	Singapore
Real Growth in GDP (%)	2.6	4.7
Per Capita GNI (US\$)	39,220	53,929
Unemployment Rate (%)	3.4	1.9
Labor Force Participation Rate (%)		
Males	69	76
Females	55	58
Inflation Rate (%)	4.3	2.4
Population (million)	7.2	5.4
Life Expectancy at Birth (years)		
Males	81.1	80.1

Females	86.7	84.5
Infant Mortality Rate (per 1,000 live-births)	1.8	2.0
Total Fertility Rate (per female)	1.12	1.19
Doctors Per 10,000 Population	18	20
Home Ownership (%)	51.2	90.5

Figure 3: Comparison of Selected Economic and Social Indicators of Hong Kong and Singapore¹²

III. A Comparative Reading of the Two Cities' Public Housing Policies

It is generally agreed that Singapore has a more successful public housing policy than Hong Kong. Actually, the sale of residential flats built by HDB Singapore was in fact modelled after Hong Kong's Home Ownership Scheme (HOS). The current statistics demonstrate why Singapore's public housing policy has been successful in dealing with its citizens' need of home ownership in the past 30 years while Hong Kong at the same time is facing increasingly density and tension in its housing policies.

Some 80 per cent of Singaporeans live in public housing flats, while the figure for Hong Kong in 2015 stood at 45.6 per cent. In terms of owner occupier rate, some 90 per cent of Singaporean households live in their own housing. In Hong Kong, that figure is about 50 per cent. There is also an interesting comparison in

¹² Department of Statistics Singapore, *Singapore in Figures 2016*, available at https://www.singstat.gov.sg/docs/default-source/default-document-library/publications/publications_and_papers/reference/sif2016.pdf. Government of Hong Kong SAR, *Hong Kong Fact Sheets*, available at <https://www.gov.hk/en/about/abouthk/factsheets/>.

that only about 5 per cent of land in Singapore is classified as protected, not for development, whereas in Hong Kong the untouchable country park land occupies 40 per cent of the total land area.¹³

To begin with the comparison of the two housing policies, the general market conditions should be studied first. In Hong Kong, in accordance with the Hong Kong Housing Authority ("HKHA")'s statistics in 2015, approximately 29% of the population stays in public rental housing and 16% resides in flats that are subsidized by the government, while the rest 55% of the population occupies the private housing market.¹⁴ Around half of the population has no ownership of any real property. In a nutshell, the Hong Kong Government is not active in intervening the housing market actively, leading to a domination of the market by private real properties.¹⁵ In Singapore, in accordance with the data provided by the Department of Statistics in 2015, more than 80% of the housing was in public nature. More than 90% of the population owns real property and only a very small portion of population dwell by renting.¹⁶ Compared with Hong Kong, the Government of Singapore tends to have stronger intervention and play an important role of determining in the housing market. To have a more systematic

¹³ Chin, T., & Strand, J. B. (2008). *Hong Kong vs. Singapore: A comparison of two real estate markets*. *Cornell Real Estate Review*, 6, 26-36.

¹⁴ *Id.*

¹⁵ Bee Lin Ang, *Hong Kong Real Estate: Is the Lack of Land A Myth?*, *Forbes*, April 3, 2015, available at <https://www.forbes.com/sites/beelinang/2015/04/03/hong-kong-real-estate-is-the-lack-of-land-a-myth/#6dd16efb6689>.

¹⁶ Department of Statistics Singapore, *Singapore in Figures 2016*, available at https://www.singstat.gov.sg/docs/default-source/default-document-library/publications/publications_and_papers/reference/sif2016.pdf.

housing policy comparison, the public ones were to be analyzed here. As dominate public housing types, the policies for both public rental housing and public home ownership would be analyses comparatively.

1. Service Providers to the Public Housing of Hong Kong and Singapore and Financing Sources

In Hong Kong, the public housing program was developed and implemented by the Housing Department of HKHA. In other words, public sector provides public housing services to people. The main financing sources of HKHA include two parts, public and private. The public sources are government budget, direct injection of capital and indirect subsidies of land. The private sources are made through selling and leasing of properties, as well as the premium and investment income, since HKHA is the biggest landlord with the largest housing stock in Hong Kong.¹⁷ Similarly, the Housing and Development Board (“HDB”) is responsible for planning and developing the public housing. This public housing authority is also financed by both governmental sources and other incomes through leasing, selling and investment. One thing that is different is a sovereign controlled social security fund for the working population called Central Provident Fund (“CPF”), which was used as a funding source to construct public housing and pay the money back at the

¹⁷ Hong Kong Housing Authority, *Housing Authority*, available at <https://www.housingauthority.gov.hk/en/about-us/housing-authority/index.html>.

time of the purchase from HDB.¹⁸

2. Provisions of the Policies and Eligibility

Despite the similar framework in terms of management and financial sources, the difference in provisions of the policies should be noted. In public housing of Hong Kong, an average subsidy of 1,700 HKD was provided indirectly to tenants, which was less than one fifth of their average household income as of 2015.¹⁹ The provision for public housing in Hong Kong is through indirect subsidy. In Singapore, people were provided with CPF to purchase flats in a lower price with a possibility of obtaining a concessionary interest rate from HDB for mortgages, and at least a subsidy of \$20,000 is provided to those who purchase property for the first time.²⁰ After repaying the loans or buying the public housing, the ownership was given so as to build up the asset portfolio of purchasers.

Although both policies for public housing in Hong Kong and Singapore have similar eligibility threshold in accordance with HKHA in 2015 and HDB in 2015, *e.g.* the age limit of 18 and 21 years old respectively, citizenship requirement, no prior ownership of any kind of property, income ceiling, etc., different

¹⁸ Central Provident Fund Board of Singapore Government, *Public Housing Scheme*, available at <https://www.cpf.gov.sg/members/schemes/schemes/housing/public-housing-scheme>.

¹⁹ Hong Kong Housing Authority, *Housing in Figures 2016*, available at <https://www.housingauthority.gov.hk/en/common/pdf/about-us/publications-and-statistics/HIF.pdf>.

²⁰ Rachel Au-Yong, *Resale flats: First-time buyers get higher subsidies*, The Straits Times, February 21, 2017, available at <http://www.straitstimes.com/singapore/resale-flats-first-time-buyers-get-higher-subsidies>.

requirements were set forth in two policies in income limit for public rental housing. Hong Kong has tight restriction on the limit of income and net asset, which is around 14% below the medium household income, in order to allocate the limited housing resources only to those in need. Singapore, on the other hand, has a limit of about 45% above the average medium household income with an income ceiling of first-time purchaser for three rooms, while no restriction was put to purchase the second-hand flat of HDB, which was less strict than the limit required in Hong Kong, covering larger group with various income levels.

IV. Key Factors Contributing to the Success of Public Housing Policies in Singapore

Similar to Hong Kong, Singapore's public housing program started with the provision of relatively low cost rental units. However, it moved swiftly towards homeownership shortly after the ease of the severe housing shortage in the early 1960s.²¹ Since 1964, an increasing emphasis was placed on housing quality and home ownership. The demand for home ownership far exceed the demand for rental housing in the two decades during 1970s and 1980s.²² The national goal of achieving a full homeownership society by the turn of the century was by no means an easy task. It required strong political will, and tremendous financial,

²¹ National Library Board of Singapore, *Introduction to Housing and Development Board*, available at http://eresources.nlb.gov.sg/infopedia/articles/SIP_1589_2009-10-26.html.

²² *Id.*

land and human resources. The affordability of both the government and residents had to be considered carefully. There were several major factors contributing to Singapore's achievements in public housing provisions, especially during 1970s to 2000s, i.e. 1) political commitment and efficient administration; 2) land acquisition policies; and 3) the housing finance system.

1. Political Commitment and Efficient Administration

Public housing in Singapore is not just a social welfare program providing shelter for the poor who are unserved by the private housing market. It also aims at improving the overall living conditions of the whole population and ultimately achieving the goal of a full property-owning society.²³ It is part of the People's Action Party government's strategy to fight for survival and build a stable society, surrounded by much larger neighbors in terms of population and area like Indonesia and Malaysia. It has been used as a tool to transform the old Singapore into a new society as envisioned by the Party leaders. By controlling the demand and supply for housing and its related services, the government can maintain the economic viability and sustain the ruling party's political legitimation and domination. The public housing program and the provision of related services were basically a national development strategy by which socio-economic change and political control are exercised to the majority of the population.²⁴

²³ Housing & Development Board of Singapore, *Public Housing - A Singapore Icon*, available at <http://www.hdb.gov.sg/cs/infoweb/about-us/our-role/public-housing--a-singapore-icon>.

²⁴ *Id.*

The strong political support and institutional commitments are important ingredients for the HDB's efficient implementation and management of such a large-scale public housing program. They were expressed in the form of extensive legislative powers of the HDB and the allocation of huge financial, land and human resources for the public housing program. As the government considered public housing as a tool for nation-building, economic development, social integration, as well as political legitimation and domination, it therefore threw its total support behind the HDB.

HDB was established as a Statutory Board under the Ministry of National Development to plan, build, and manage all public housing estates and their related amenities. The Chairman, the deputy Chairman and six members of the Board are appointed by the Minister. The Chief Executive Officer, appointed by the Board with ministerial approval, heads the organization which is divided into the administration and finance division, building and development division, estates and land division, resettlement department and internal audit department (Figure 4).

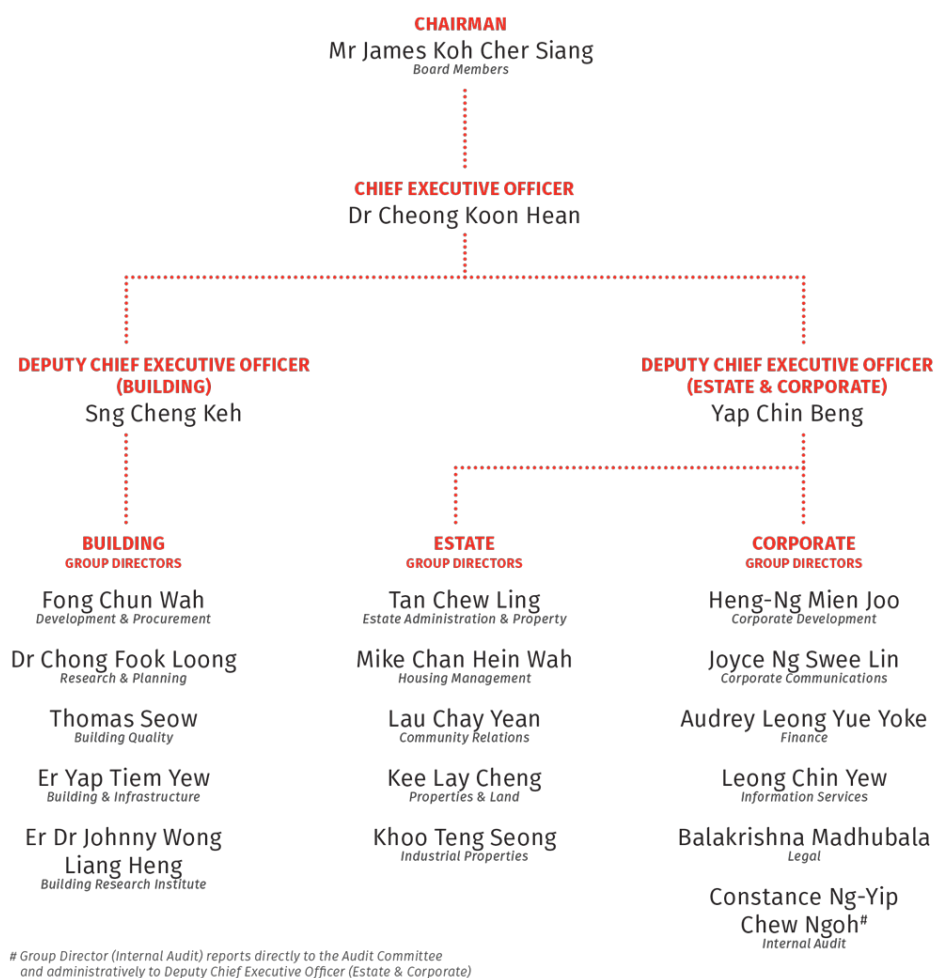


Figure 4: Organizational Structure of HDB, Singapore (2015)²⁵

The HDB's staff grew from a few hundred in the early 1960s to a total of 5,744 persons as of 2016.²⁶ Similar to the civil service, quite a large number of staff in the HDB are highly qualified professionals. The high-level positions are well-paid in order to attract the best talents, discourage corruption, and keep a clean and efficient administration. Consequently, HDB functions rather efficiently in

²⁵ Singapore Housing & Development Board, Organization Structure, available at <http://www.hdb.gov.sg/cs/infoweb/about-us/organisation-structure>.

²⁶ Singapore Housing & Development Board, *Annual Report 2015/2016*, available at http://www20.hdb.gov.sg/fi10/fi10221p.nsf/arxvi/our_people.html.

producing a large number of housing units annually and managing and maintain the huge housing stock in good conditions.

2. Land Acquisition Policies

Another factor contributing to the public housing development was the effective implementation and enforcement of the compulsory land acquisition policies. The Land Acquisition Ordinance of Singapore was first enacted in 1920 to enable the government to acquire private land for public purposes. It had since amended several times but, more significantly, it was repealed and replaced by the Land Acquisition Act of 1966 after Singapore's full independence in 1965. The Act empowered the government and its agencies, i.e. the HDB, to compulsorily acquire any private land needed for its development, urban renewal and related programs at prices well below what private developers would have paid for their land. This land acquisition policy had limited land speculation and made large scale comprehensive new town and public housing developments possible. In practice, when a site is declared under HDB's acquisition, the property owners will receive a notice and an offer of compensations based on the market value as at November 1973 or at the date of Gazette Notification, whichever is lower. Compensation was capped at 1973 levels for about 14 years between 1973 and 1987, with no allowance being made for market valuation or the landowner's purchase price. Exceptions were made on a case-by-case basis. Singapore has since moved to a more market-based approach for compensation of acquired land. Subsequent amendments to the Land Acquisition Act changed the statutory date for purposes

of valuation for compensation to 1 January of 1986, 1992, and 1995. In 2007, the use of a historical statutory date was removed by Parliament, and compensation has since been pegged to full market value.²⁷

Although the Act provides for compensation at “market value,” prices paid by the HDB for acquired lands are, in practice, usually much lower than market prices (about 20% of values assessed by land assessor).²⁸ Actually, the land policies were viewed by the government as a forceful means of redistributing wealth and resources. Then Prime Minister Lee Kuan Yew described the Act as a means of facilitating the redistribution of land with the primary aim of achieving a full homeownership society. The Act has been a very powerful instrument in the public housing development in Singapore.

3. Housing Finance System

Another important element which makes Singaporean Government’s public housing program possible is the availability of funds from general government tax revenue and the Central Provident Fund (CPF) for housing development and home purchase. A major policy innovation in 1968 was for the government to utilize the CPF as a vehicle for housing finance. In 1968, a new law was introduced to allow withdrawals from the fund to finance the purchase of housing sold by the HDB.

²⁷ Sock-Yong Phang & Matthias Helble, *Housing Policies in Singapore*, Asian Development Bank Institute, ADBI Working Paper Series (March 2016), available at <https://www.adb.org/sites/default/files/publication/181599/adbi-wp559.pdf>.

²⁸ Belinda Yuen, *Housing Policy Systems in South and East Asia*, edited by R. Agus, J. Doling & D. Lee, p.41, 2002.

Both employers and employees contributed a certain percentage of the individual employee's monthly salary toward the employee's personal and portable account in the fund. When the CPF was established in 1955, the contribution rate was 10% (5% each by employees and employers) of the monthly salary. With the new law in 1968, the contribution rates were raised steadily, and by 1984, they were 25% of wages. The contribution rates in 2016 are 20% of wages for employees and 17% of wages for employers, up to a monthly salary ceiling of S\$6,000.²⁹ The HDB receives government loans to finance its mortgage lending and pays interest at the prevailing CPF savings rate. The HDB uses the loans to provides mortgage loans and mortgage insurance to buyers of its leasehold flats (both new and resale). The typical loan represents 80% of the price of the flat. The maximum repayment period is limited to 25 years. Every household can apply for a maximum of two HDB loans. The mortgage interest rate charged by the HDB is pegged at 0.1 percentage point above the CPF ordinary account savings interest rate. (The latter is based on savings rates offered by the commercial banks, subject to a minimum of 2.5%.)³⁰

The use of the CPF savings for the purchase of public housing is a very

²⁹ For details, see the CPF web page at <https://mycpf.cpf.gov.sg/employers/employerguides/employerguides/paying-cpf-contributions/cpf-contribution-and-allocation-rates>.

³⁰ From 1 January 2008, an extra 1% interest per year is paid on the first S\$60,000 of a member's combined balances. See the CPF web page on details of interest rates payable for various accounts at <https://mycpf.cpf.gov.sg/Members/AboutUs/about-us-info/cpf-interest-rates>. Historical interest rates can be found at <https://mycpf.cpf.gov.sg/Assets/common/Documents/InterestRate.pdf>.

important factor making the homeownership program in Singapore possible and successful. In 1964, HDB initially introduced the homeownership scheme which aimed at providing public housing for people whose housing needs were not met in the private sector. The scheme then grew slowly because of the small number of flats available and the requirement of a handsome amount of cash downpayment. In order to improve the situation, in September 1968, the CPF Act 1968 was introduced to allow members to withdraw up to 80% of their total CPF savings to purchase homeownership flats. The Act also stipulated that the employers and employees had to contribute a monthly sum to the employees' CPF accounts. As the returns on CPF savings are low comparing to the price increase in public ownership flats, most residents chose to withdraw their CPF savings to purchase public flats in order to maximize the returns of their savings. This is particularly so when the government further relaxes the restrictions on the resale of public housing flats in the markets. This forced savings deposited with the government had built up a huge capital reserve for the government to finance housing developments and simultaneously enabled all CPF members to purchase their houses and meet their initial and mortgage payments.

The system is not, however, without its critics and risks. The mandatory nature of the CPF, together with the dominance of the HDB, could have resulted in overallocation of resources to housing. The CPF collects from members more than what is required for housing. This could have crowded out consumption³¹ and, as

³¹ Sock-Yong Phang, *House Prices and Aggregate Consumption: Do They Move*

CPF savings are illiquid, it has been cited as a reason behind a weak domestic start-up sector.³² The large allocation of savings for housing and the risk of housing price declines pose risks for retirement financing.³³ The phrase “asset rich and cash poor” neatly captures the basic problem, and policies in the past decade to help aging households monetize their housing equity, provide health subsidies for the elderly, and workfare for lower-income workers represent steps toward a more comprehensive social security system.

The affordable rental segment of Singapore’s housing market has also been marginalized by the deliberate and long-standing policy bias toward homeownership. The small proportion of HDB social rental housing comprises mostly one- and two-room flats that house low-income families. There is generally a shortage of affordable market rental units in the HDB sector as evident by the higher rental yield for HDB flats as compared with private housing. With the increase in the foreign population in Singapore, there is a need to expand the affordable rental sector. One suggestion is to establish housing real estate investment trusts to help cater to the rental housing needs of an increasing number of SPRs and foreigners in Singapore as well as Singaporean households in

Together? Evidence from Singapore. 13 *Journal of Housing Economics* 101 (2004).

³² Mukul G. Asher, *The Role of the Global Economy in Financing Old Age: The Case of Singapore*. ADBI Research Paper Series 37. Asian Development Bank Institute, available at <https://www.adb.org/sites/default/files/publication/157176/adbi-rp37.pdf>.

³³ McCarthy, Mitchell & Piggott, *Asset-rich and Cash-poor: Retirement Provision and Housing Policy in Singapore*, 1 *Journal of Pension Economics and Finance* 197 (2002).

transition.³⁴

While the Singapore model has attracted much interest from other Asian countries, the transferability of Singapore's experience to other countries needs to be juxtaposed with the local political and social context. In the housing policy sphere, a housing provident fund is relatively simple to set up if designed as a savings and payments institution. The more complex institution to replicate is the HDB, in particular its resettlement, town planning, and estate management capabilities, as well as attention to developing good-quality affordable housing on a large scale. Moreover, the tactics on which Singapore relies—compulsory savings, state land ownership, and state provision of housing—can easily spawn widespread inefficiency and corruption in other sociopolitical contexts.

V. Conclusion

Hong Kong can draw two lessons from the comparison with Singapore. One, Singapore's housing policy is heavily state-dominated, and is focused on catering for the housing needs of its citizens, while in Hong Kong, housing policy has been to a very large extent dictated by residential property market fluctuations. Abandoning the 85,000-unit program after the property market crash and the suspension of HOS flat-building during Donald Tsang's term are clear examples of market influence on policies that were supposed to fulfil the long-term basic

³⁴ Sock-Yong Phang, *Do Singaporeans Spend Too Much on Real Estate?*, Keynote presentation at Institute of Policy Studies, Lee Kuan Yew School of Public Policy, National University of Singapore (May 10, 2013).

housing needs of Hong Kong citizens. Second, there has been an almost complete absence of land supply strategy in Hong Kong, particularly since the change of sovereignty. This contrasts with the massive land reclamation carried out in Singapore in the past 20 years. In that time, the SAR government halted land reclamation and has been hesitant in proposing development of the fringe areas of the country parks due to opposition from environmental protection groups.